



Regulatory Story

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Company SerVision plc
TIDM SEV
Headline Final Results
Released 14:20 29-Jun-2012
Number 5284G14

RNS Number : 5284G
SerVision plc
29 June 2012

29 June

2012

SERVISION PLC

("Servision" or "the Company")

FINAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2011

SerVision (AIM: SEV), the AIM listed leading developer and manufacturer of an award winning range of digital security systems, is pleased to announce its audited final results for the year ended 31 December 2011. SerVision has developed and patented a video compression technology, which allows high quality, real-time CCTV transmissions to be streamed across mobile phone networks and is currently being used by bus, taxi and cash-in-transit fleets, ATM providers, vehicle tracking and remote location facilities.

A copy of the annual report and accounts, along with notice of the Company's annual general meeting, to be held at the offices of Adams & Remers LLP, Dukes Court, 32 Duke Street, St James's, London, SW1Y 6DF on Monday 23 July 2012 at 10 am, has today been posted to shareholders and is available from the Company's website, www.servision.net.

HIGHLIGHTS:

- Revenues for the period increased by 17% to \$6,214,000* (2010: \$5,301,000)
- Operating profit for the period increased to \$1,156,000* (2010 : \$709,000)*
- Net profit for the period increased to \$1,278,000 compared to \$641,000 for 2010*

**Includes a one-off revaluation of \$766,000 in the period on a loan owed to the Office of Chief Scientist*

Gidon Tahan, Chairman and Chief Executive Officer of SerVision, commented, "We are excited by the developments in 2011, brought about by our dedicated sales and marketing efforts and also by our world class portfolio of digital video systems. The number of major new

client wins during the year is a testament to these factors.

"We are now in the process of launching a new video gateway platform which will provide our customers with a range of upgraded services as well as new features, ensuring SerVision remains at the very forefront of its industry."

For further information:

SerVision plc +972 2535 0015
Eitan Yanuv, Finance Director

Allenby Capital Limited (Nominated Adviser/ Broker) +44 (0)20 3328 5656
Nick Athanas / James Reeve

Leander (Financial PR) +44 (0)7795 168 157
Christian Taylor-Wilkinson

CHAIRMAN'S STATEMENT

I am pleased to announce SerVision's group financial statements for the year ended 31 December 2011, and to confirm that the Company has sustained its positive record of growth and profitability, recording record sales in the year.

Financials

- Revenues for the period increased by 17% to \$6,214,000 (2010 revenues: \$5,301,000)
- Operating profit for the period increased to \$1,156,000 (2010 : \$709,000)
- Net profit for the period increased to \$1,278,000 compared to \$641,000 for 2010

Operating Review

In February 2011 the Company announced that it had raised approximately £725,000 through an oversubscribed placing, which provided SerVision with additional working capital and to promote the commercialisation of the Company's product base. This additional funding has enabled the Company to execute its commercial strategy and has assisted in business growth in the Company's market segments.

Sales and Marketing

SerVision's achievements, particularly in the transportation security sector, over the course of 2011 were significant. Its sales figures for 2011 were bolstered by a number of important distribution agreements with well-established security companies including Cobra (UK), Mesan (Turkey), Graphic Image Technologies (South Africa), Cashfin (Mexico), Testronic (Angola), and AGS (India).

In addition to working with a broad range of newly appointed distributors across the globe, SerVision was awarded contracts to supply 750 UVGs for a nation-wide ATM project in India, and over 400 MVGs for a safe city project in Buenos Aires, Argentina. A number of other projects that began in 2010, including a school bus project in San Antonio, Texas and numerous

public bus projects in Brazil, expanded significantly during the year.

New pilots across global markets for police patrol cars, buses, armoured cash-carrying vehicles, tobacco transport trucks, petrochemical vehicles and trains were commissioned in 2011, however these did not generate significant revenues in the year under review.

Research and Development

Over the course of 2011 SerVision's R&D team spent considerable time fine-tuning its recently-launched SVControlCenter Video Management Software (VMS) solution for professional Control Centers. In addition to optimizing the SVControlCenter's wireless backup module, a range of new enhancements were made to the GPS tracking and the alarm/event-handling modules. The launch of the SVControlCenter is highly significant because, in contrast to SerVision's SVMultiClient, it is highly scalable - a single server can support fleets that number in the thousands.

In parallel to its work on the SVControlCenter, SerVision's R&D team selected the hardware for the Company's next generation line of video gateway products and it has recently begun software development for the new platform. The new range of products will support full D1 resolution using SerVision's optimized H.264 compression. In addition to offering all the advanced features available on our existing systems (live video, bi-directional audio, GPS, built-in WiFi, G-Force, etc), the new systems will have more processing power, faster HD/SD interfaces, faster cellular connections, support for external device connectivity (such as disks-on-key) and have a modular design of 1-4 channels, with a modular master-slave architecture to allow chaining of devices. We anticipate having our first prototype based on the new platform ready by Q4 2012.

Current trading and prospects

We are pleased with the start to 2012, although we have seen a trend similar to 2011, where revenues are likely to be weighted towards the second half of the year. We are encouraged by the number of pilot programmes we are currently running and are cautiously optimistic that they will lead to sales in the current financial year.

Conclusion

I am pleased to report on SerVision's continued trend of profitability throughout 2011, and I am especially grateful to our staff for their hard work and commitment, as well as to our shareholders for their ongoing support. I remain optimistic about SerVision's growth and sustained profitability into 2012.

Gideon Tahan

Chairman and Chief Executive Officer

29 June, 2012

	<u>Notes</u>	<u>2 0 1 1</u> <u>\$'000</u>	<u>2 0 1 0</u> <u>\$'000</u>
Sales of goods and services	1,2	6,214	3,901
Franchise income		<u>-</u>	<u>1,400</u>
TOTAL REVENUES		6,214	5,301
Cost of sales	3	<u>(3,367)</u>	<u>(1,991)</u>
GROSS PROFIT		2,847	3,310
Other income	19	766	-
Administrative expenses		(1,775)	(1,824)
Depreciation and amortisation		(757)	(632)
Exchange rate differences		<u>114</u>	<u>(145)</u>
OPERATING PROFIT			
	4	1,195	709
Net finance expenditure	5	<u>(39)</u>	<u>(68)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INCOME TAX		1,156	641
Tax on ordinary activities	6	<u>122</u>	<u>-</u>
NET PROFIT FOR THE YEAR		1,278	641
Translation difference arising from translating into presentation currency		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>1,278</u>	<u>641</u>
PROFIT PER SHARE			
BASIC	8	<u>2.57c</u>	<u>1.53c</u>
DILUTED	8	<u>2.57c</u>	<u>1.53c</u>

All activities arose from continuing activities.

**CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2011**

	<u>Notes</u>	<u>2 0 1 1</u> <u>\$'000</u>	<u>2 0 1 0</u> <u>\$'000</u>
ASSETS			
Non-current assets			
Intangible assets	9	4,666	4,397
Deferred tax asset	6	122	-
Property, plant and equipment	10	<u>109</u>	<u>55</u>
		<u>4,897</u>	<u>4,452</u>
Current assets			

Inventories	12	211	283
Trade and other receivables	13	5,020	3,298
Cash and cash equivalents		<u>94</u>	<u>197</u>
		<u>5,325</u>	<u>3,776</u>
		<u>10,222</u>	<u>8,228</u>
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	14	898	755
Share premium account		12,206	11,383
Merger reserve		1,979	1,979
Other reserve		48	40
Retained earnings and translation reserves		<u>(7,980)</u>	<u>(9,258)</u>
TOTAL EQUITY		<u>7,151</u>	<u>4,899</u>
LIABILITIES			
Non-current liabilities			
Bank loans	17	-	217
Loan from the office of the chief scientist	1	17	782
Post employment benefits	20	<u>340</u>	<u>347</u>
		<u>357</u>	<u>1,346</u>
Current liabilities			
Bank loans and overdrafts	17	692	364
Loan from the office of the chief scientist	1	158	154
Trade and other payables	16	<u>1,864</u>	<u>1,465</u>
		<u>2,714</u>	<u>1,983</u>
TOTAL LIABILITIES		<u>3,071</u>	<u>3,329</u>
TOTAL EQUITY AND LIABILITIES		<u>10,222</u>	<u>8,228</u>

**PARENT COMPANY BALANCE SHEET
AT 31 DECEMBER 2011**

	Notes	2 0 1 1 \$'000	2 0 1 0 \$'000
ASSETS			
Non-current assets			
Investments	11	200	200
Trade and other receivable	13	<u>66</u>	<u>68</u>
		<u>266</u>	<u>268</u>
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	14	898	755
Share premium account		12,206	11,383
Other reserve		48	40
Retained earnings and translation reserves		<u>(12,918)</u>	<u>(11,993)</u>
		<u>234</u>	<u>185</u>
TOTAL EQUITY		<u>234</u>	<u>185</u>

LIABILITIES**Current liabilities**

Trade and other payables	16	<u>32</u>	<u>83</u>
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TOTAL EQUITY AND LIABILITIES

	<u>266</u>	<u>268</u>
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**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011**

	<u>Notes</u>	2 0 1 1 <u>\$'000</u>	2 0 1 0 <u>\$'000</u>
Cash flows from operating activities			
Profit before taxation		1,156	641
Adjustments for:			
Net finance expenditure	5	39	68
Depreciation and amortisation		757	632
Movement in trade and other receivables		(1,725)	(1,073)
Movement in inventories		72	(87)
Movement in post retirement benefits		(7)	80
Movement in trade and other payables		399	2
Revaluation of loan from CSO	19	<u>(761)</u>	<u>--</u>
Net cash generated from (used in) operating activities		(70)	263
Cash flow from investing activities			
Purchase of property, plant and equipment and intangibles		(1,080)	(1,013)
Net interest paid		--	(10)
Deposit for leasing vehicles		<u>4</u>	<u>(6)</u>
Net cash used in investing activities		<u>(1,076)</u>	<u>(1,029)</u>
Cash flows from financing activities			
Receipts from issue of shares (net of issue costs)		974	523
Net loans undertaken less repayments		<u>(189)</u>	<u>26</u>
Cash generated from financing activities		<u>785</u>	<u>549</u>
Cash and cash equivalents at beginning of period			
		87	304
Net cash generated from all activities		(361)	(217)
Cash and cash equivalents at end of period		<u>(274)</u>	<u>87</u>
Cash and cash equivalents comprise:			
Cash and cash equivalents		94	197
Overdrafts		<u>(368)</u>	<u>(110)</u>
		<u>(274)</u>	<u>87</u>

**PARENT COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011**

	2 0 1 1	2 0 1 0
	<u>\$'000</u>	<u>\$'000</u>
Cash flows from operating activities		
Loss before taxation	(925)	(608)
Adjustments for:		
Movement in trade and other receivables	2	53
Movement in trade and other payables	<u>(51)</u>	<u>32</u>
Net cash used in operating activities	<u>(974)</u>	<u>(523)</u>
Cash flows from financing activities		
Issue of shares (net of issue costs)	<u>974</u>	<u>523</u>
Cash generated from financing activities	<u>974</u>	<u>523</u>
Cash and cash equivalents at beginning of period	--	--
Net cash used in all activities	<u>--</u>	<u>--</u>
Cash and cash equivalents at end of period	<u>--</u>	<u>--</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Share Capital	Share Premium	Merger Reserve	Other Reserve	Retained Earnings	Translation Reserve	Total
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
At 1 January 2010	711	10,920	1,979	24	(10,024)	125	3,735
Total comprehensive income for the year	-	-	-	-	641	-	641
Issue of shares (net of costs)	<u>44</u>	<u>463</u>	<u>-</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>523</u>
At 31 December 2010	755	11,383	1,979	40	(9,383)	125	4,899
Total comprehensive income for the year	-	-	-	-	1,278	-	1,278
Issue of shares (net of costs)	<u>143</u>	<u>823</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>974</u>
At 31 December 2011	<u>898</u>	<u>12,206</u>	<u>1,979</u>	<u>48</u>	<u>(8,105)</u>	<u>125</u>	<u>7,151</u>

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

	Share Capital \$'000	Share Premium \$'000	Other Reserve \$'000	Retained Earnings \$'000	Translation Reserve \$'000	Total \$'000
At 1 January 2010	711	10,920	24	(11,492)	107	270
Total comprehensive income for the year	-	-	-	(608)	-	(608)
Issue of shares (net of costs)	<u>44</u>	<u>463</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>523</u>
At 31 December 2010	755	11,383	40	(12,100)	107	185
Total comprehensive income for the year	-	-	-	(925)	-	(925)
Issue of shares (net of costs)	<u>143</u>	<u>823</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>974</u>
At 31 December 2011	<u>898</u>	<u>12,206</u>	<u>48</u>	<u>(13,025)</u>	<u>107</u>	<u>234</u>

1. ACCOUNTING POLICIES

Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (June 2012) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention and a summary of the more important accounting policies is set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The directors have prepared and reviewed sales forecasts and budgets for the next twelve months and having considered these cash flows and the availability of other financing sources if required, have concluded that the group will remain a going concern. On this basis the financial statements have been prepared on a going concern basis.

No separate income statement is presented for the company as provided by section 408, Companies Act 2006.

Basis of Consolidation

The Group financial statements consolidate the financial statements of Servision plc and its subsidiaries (the "Group") for the years ended 31 December 2010 and 2011.

The accounts of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Revenue recognition

Sale of systems

The subsidiary generates revenues mainly from sales of systems. The subsidiary sells its products directly through its distribution networks worldwide.

Revenues from systems sales are recognised mostly upon delivery of the system or upon installation at the customer site, where applicable, provided that the system fee is fixed or determinable and persuasive evidence of an arrangement exists.

For transactions of the "charged and held" type, for which delivery of inventory was postponed until after the balance sheet date, revenue is recorded upon completion of the system only upon the condition that the customer confirms in writing the terms of the postponed delivery.

Sale of products

Revenues from the sale of purchased products are recognised upon delivery of the products to the customers.

Franchise income

Revenues from franchises are recognised in line with the agreed terms of the franchise agreement.

Warranty costs

The subsidiary generally offers a one year warranty for all its products. The subsidiary includes in its statements of operations an allowance for warranty claims totalling 1.5% of annual sales at the time revenues are recognised, for estimated material costs during the warranty period.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is calculated to write down the cost of all tangible fixed assets by equal monthly instalments over their estimated useful lives at the following rates:-

Leasehold improvements	10% per annum
Office furniture and equipment	6-15% per annum
Computer equipment	20-33% per annum

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. The presentational currency of the Group is the United States Dollar. The functional currency of the parent company is sterling because the parent company is based in the United Kingdom and has all its transactions in that currency.

The functional currency of the subsidiaries is the US Dollar as the majority of revenues are generated in this currency and the majority of costs are incurred in dollars.

The exchange rate used at 31 December 2011 was £1 = US\$1.5453.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the income statement as incurred.

Trade and other receivables

Trade and other receivables are recognised and carried at original invoice value less an allowance for any credit losses. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Investments

Investments in subsidiary undertakings are stated at cost less provisions for impairment.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Inventories

Inventories represent work in progress and goods for resale and stated at the lower of cost and net realisable value.

Research and development

Expenditure for research activities are recognised as an expense in the period in which it is incurred.

Expenditure for the development activities of technology used in the production of systems sold by the Company, are capitalised and presented as an asset in the balance sheets only if all of the following conditions are met:

- Development costs of the technology are identifiable and separable.
- It is probable that the developed technology will generate future economic benefits.
- The development costs of the technology can be measured reliably.

Development costs meeting these criteria are capitalised and amortised on a straight-line basis over their useful economic lives once the related technology is available for use.

Software

Intangible assets purchased separately, such as software licenses that do not form an integral part of related hardware, are capitalised at cost and amortised over their useful economic life.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

Post retirement benefits

The subsidiary operates defined benefit plans for the payment of severance pay in accordance with the Severance Pay Law of Israel at the termination of employment of employee services for the subsidiary. According to the law in Israel employees are entitled to receive severance pay in the event that they are fired or if they retire. The severance is calculated according to the last month's salary of the employee at the termination period of services multiplied by the number of years of service at the subsidiary.

The subsidiary deposits funds for its obligations towards severance pay for a part of its employees in

an ongoing manner to pension funds and insurance companies and to a general fund deposited in a banking institution (hereafter the "Plan Assets").

The calculation of the liabilities, prepared by an authorised actuary, was established by the use of techniques of an actuarial estimate which includes established assumptions which include among other items the capitalisation rate, the expected rate of return on plan assets, the rate of increase to salaries, and the rate of employee turnover. There exist material uncertainties for these estimates since the plan is long-term.

Liabilities for post employment benefits recorded in the balance sheets represent the present value of the defined benefit plans according to the fair value of plan assets. Assets derived from this calculation are limited to the prior cost of services provided in addition to the present value of available funds and less future amounts to be deposited to the plans.

Changes in the post employment liabilities were attributed, according to the actuarial report, to salaries and interest expenses in the profit and loss statement and to actuarial gains or losses in a separate statement of recognised income and expenses.

Grants from the Office of the Chief Scientist

Prior grants received from the Office of the Chief Scientist ("OCS") to finance research and development costs of the subsidiary were presented as a long-term loan at the date of receipt. The loan is repaid by the payment of royalties to the Chief Scientist and is calculated as a percentage of sales of the subsidiary.

Group management reassess the balance repayable at each reporting date according to their estimates of future sales of products funded by the OCS funding. These estimates of future sales are based on demand for and past sales of, the funded products. As a result of the reassessment at 31 December 2011 the liability to the OCS at 31 December 2011 has been reduced by \$766,000.

Share-based payments

The Group grants options to employees and third party suppliers on a discretionary basis. The cost of granting share options and other share-based remuneration is recognised through the share premium as a cost of raising equity with a corresponding increase in other reserves in equity or in the income statement if the award relates to the remuneration of employees. The Group uses a Bi-nominal option valuation model.

2. BUSINESS SEGMENT ANALYSIS

In identifying its operating segments, management generally follows the Group's geographical regions, which represent the main way segments are analyzed in the Group.

The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements. Segment assets and liabilities are not reported internally by management to the Board.

The Group's revenue from external customers are divided into the following geographical areas, by location of operation.

	2 0 1 1	2 0 1 0
	<u>\$'000</u>	<u>\$'000</u>
Europe	1,523	1,566
Far & Middle East	1,969	2,426
North America	977	296
Rest of the world	<u>1,745</u>	<u>1,013</u>
	<u>6,214</u>	<u>5,301</u>

All of the Group's non-current assets are held in Israel.

The Group has two customers that accounted for more than 10% of revenue in 2011 (2010: 10%) one of which is based in the Rest of the world and the other in the Far & Middle East.

3.	<u>COST OF SALES</u>	2 0 1 1 <u>\$'000</u>	2 0 1 0 <u>\$'000</u>
	Materials and parts	2,810	1,568
	Employee benefit expense	379	316
	Other costs	<u>178</u>	<u>107</u>
		<u>3,367</u>	<u>1,991</u>
4.	<u>EXPENSES BY NATURE</u>	2 0 1 1 <u>\$'000</u>	2 0 1 0 <u>\$'000</u>
	Employee benefit expense (see below)	1,252	1,177
	Exchange rate differences	(114)	145
	Depreciation and amortisation	757	632
	Doubtful accounts	224	205
	Travel abroad	205	286
	Trade shows - local and abroad	90	84
	Operating lease rentals	43	76
	Auditors' remuneration		
	- statutory audit services	15	15
	- audit-related assurance services	<u>5</u>	<u>5</u>
	Employee benefit expense (including directors)	2 0 1 1	2 0 1 0
		<u>\$'000</u>	<u>\$'000</u>
	Salaries and wages	1,137	1,047
	Social security	62	54
	Post retirement benefits	<u>53</u>	<u>76</u>
		<u>1,252</u>	<u>1,177</u>
		<u>No.</u>	<u>No.</u>
	The average number of persons (including directors) employed by the Group during the year was as follows:	<u>34</u>	<u>30</u>
		2 0 1 1	2 0 1 0
	Directors remuneration	<u>\$'000</u>	<u>\$'000</u>
	G Tahan	184	192
	C Levy	13	18
	E T Yanuv	34	42

E T Yanuv has been granted 30,000 shares in the company under long term share option incentive schemes.

These remain outstanding at the year end.

5.	<u>NET FINANCE EXPENDITURE</u>	2 0 1 1	2 0 1 0
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	<u>\$'000</u>	<u>\$'000</u>
Interest receivable	(15)	(12)
Interest payable and similar charges on bank loans and overdrafts	<u>54</u>	<u>80</u>
	<u>39</u>	<u>68</u>

6. TAXATION

The Company is controlled and managed by its Board in Israel. Accordingly, the interaction of UK domestic tax rules and the taxation agreement entered into between the U.K. and Israel operate so as to treat the Company as solely resident for tax purposes in Israel. The Company undertakes no business activity in the UK such as might result in a Permanent Establishment for tax purposes and accordingly has no liability to UK corporation tax.

	<u>2 0 1 1</u>	<u>2 0 1 0</u>
	<u>\$'000</u>	<u>\$'000</u>
(a) The taxation credit comprises:		
Current corporation tax for the period	-	-
Deferred tax credit	<u>122</u>	<u>-</u>
(b) Factors affecting tax charge for the period		
The tax assessed for the period is different than the standard rate of corporation tax. The differences are explained below:		
Profit on ordinary activities before taxation	<u>1,156</u>	<u>641</u>
Multiplied by the standard rate of corporation tax of 26% (2010: 28%)	277	160
Effects of:		
Utilisation of tax losses brought forward	<u>(277)</u>	<u>(160)</u>
Current year tax charge	<u>-</u>	<u>-</u>

(c) Factors affecting future tax charges

The directors believe that the future tax charge will be reduced by the use of tax losses carried forward which can be used against the profits made from the trading activity in the Israeli subsidiary. Tax losses carried forward in the Group at 31 December 2011 are \$7,000,000 (2010: \$8,200,000). The deferred tax asset on these losses is not recognised on the grounds of uncertain recoverability.

A deferred tax asset is recognised in respect of United States tax losses carried forward on the basis that the subsidiary in the United States is forecast to generate profits in future periods.

7. PROFIT FOR THE FINANCIAL YEAR

The parent Company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company loss for the year ended 31 December 2011 was US\$925,000 (2010: loss US\$608,000).

8. PROFIT PER SHARE

Basic earnings per share is calculated by reference to the profit on ordinary activities after taxation of \$1,278,000 (2010: profit \$641,000) and on the weighted average of 49,678,185 (2010: 41,897,768) shares in issue. The calculation of diluted earnings per share is based on the profit on ordinary activities after taxation and the diluted weighted average of 49,691,484 (2010: 41,911,067) shares calculated as follows:

	Number of shares	
	31 December <u>2011</u>	31 December <u>2010</u>
Basic weighted average number of shares	49,678,185	41,897,768
Dilutive potential ordinary shares: Share options		<u>13,299</u>
Diluted weighted average number of shares	<u>49,678,185</u>	<u>41,911,067</u>

1,180,833 (2010: 30,000) share options could potentially dilute the basic earnings per share in the future, but have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the periods presented.

9. INTANGIBLE FIXED ASSETS

Group	Software \$'000	Development expenditure \$'000	Total \$'000
Cost or valuation			
At 1 January 2010	16	8,572	8,588
Additions	<u>-</u>	<u>1,001</u>	<u>1,001</u>
At 31 December 2010	16	9,573	9,589
Additions	<u>-</u>	<u>1,014</u>	<u>1,014</u>
At 31 December 2011	<u>16</u>	<u>10,587</u>	<u>10,603</u>
Amortisation			
At 1 January 2010	15	4,557	4,572
Charge in the year	<u>1</u>	<u>619</u>	<u>620</u>
At 31 December 2010	16	5,176	5,192
Charge in the year	<u>-</u>	<u>745</u>	<u>745</u>
At 31 December 2011	<u>16</u>	<u>5,921</u>	<u>5,397</u>
Net Book Value			
At 31 December 2011	<u>-</u>	<u>4,666</u>	<u>4,666</u>
At 31 December 2010	<u>-</u>	<u>4,397</u>	<u>4,397</u>

10. TANGIBLE FIXED ASSETS

Group	Leasehold improvements \$'000	Office furniture and equipment \$'000	Vehicles \$'000	Total \$'000
Cost				
At 1 January 2010	41	197	-	238
Additions	<u>-</u>	<u>12</u>	<u>-</u>	<u>12</u>
At 31 December 2010	41	209	-	250
Additions	<u>-</u>	<u>-</u>	<u>66</u>	<u>66</u>

At 31 December 2011	<u>41</u>	<u>209</u>	<u>66</u>	<u>316</u>
Depreciation				
At 1 January 2010	22	162		184
Charge in the year	<u>4</u>	<u>7</u>	<u>-</u>	<u>11</u>
At 31 December 2010	26	169	-	195
Charge in the year	<u>4</u>	<u>7</u>	<u>1</u>	<u>12</u>
At 31 December 2011	<u>30</u>	<u>176</u>	<u>1</u>	<u>207</u>
Net book value				
At 31 December 2011	<u>11</u>	<u>33</u>	<u>65</u>	<u>109</u>
At 31 December 2010	<u>15</u>	<u>40</u>	<u>-</u>	<u>55</u>

11. INVESTMENTS

\$'000

Company

At 31 December 2011 and 31 December 2010 200

At 31 December 2010 the group held 20% or more of a class of the allotted share capital of the following:

	<u>Country of Incorporation</u>	<u>Class of Share Capital</u>	<u>Proportion Held by Servision Plc</u>	<u>Proportion Held by Group</u>	<u>Nature of Business</u>
Servision Ltd	Israel	Ordinary	100%	100%	Video Surveillance Equipment
Servision Inc.	USA	Ordinary	-	100%	Video Surveillance Equipment

12. INVENTORIES

**2 0 1 1
\$'000**

**2 0 1 0
\$'000**

Group

Raw materials	85	185
Work in progress	19	33
Finished goods	<u>107</u>	<u>65</u>
	<u>211</u>	<u>283</u>

13. TRADE AND OTHER RECEIVABLES

2 0 1 1

2 0 1 1

2 0 1 0

2 0 1 0

Group

Company

Group

Company

\$'000

\$'000

\$'000

\$'000

Trade receivables	4,603	-	2,956	-
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Other receivables	<u>417</u>	<u>66</u>	<u>340</u>	<u>68</u>
	<u>5,020</u>	<u>66</u>	<u>3,296</u>	<u>68</u>

Included within trade receivables is an amount of \$1,212,000 (2010: \$1,400,000) receivable under the franchise agreement and will be settled in the form of stock over the course of the next year and subsequent years.

14. CALLED UP SHARE CAPITAL

	2 0 1 1	2 0 1 0
	<u>\$'000</u>	<u>\$'000</u>
Allotted, called up and fully paid:		
51,188,602 (2010:42,126,102) ordinary shares of £0.01 each	898	755
384,615 deferred shares of £0.001 each	<u>-</u>	<u>-</u>
	<u>898</u>	<u>755</u>

During the year the Company issued 9,062,500 ordinary £0.01 shares for a total consideration of £725,000. Issue costs of \$178,000 have been deducted from the share premium proceeds.

15. SHARE OPTIONS

Share options are granted to employees and certain third party service providers. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The options are valued using the Binominal Model option pricing model and no performance conditions were included in the fair value calculations.

During the year the Group had the following share options in issue:

At 1 January	Number of share options		At 31 December	Exercise Price	Exercise Date
<u>2010</u>	<u>Granted</u>	<u>Exercised</u>	<u>2010</u>	<u>(pence)</u>	
30,000	-	-	30,000	15	Unlimited
333,333	-	-	333,333	9	29/10/2009-29/10/2012
<u>-</u>	<u>817,500</u>	<u>-</u>	<u>817,500</u>	7	Unlimited
<u>363,333</u>	<u>817,500</u>	<u>-</u>	<u>1,180,833</u>		

The primary assumptions which have been used in the calculations of the fair value of the Options are:

- (a) Value of the Parent Company's ordinary share of 47.5p
- (b) Variable standard deviation of 66% to 70%
- (c) Average risk free rate of interest of 0.3%

16. TRADE AND OTHER PAYABLES

	2 0 1 1		2 0 1 0	
	Group	Company	Group	Company
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Trade payables	1,189	-	757	-

Other taxes and social security	261	-	235	-
Other payables	276	-	244	-
Accruals and deferred income	<u>138</u>	<u>32</u>	<u>229</u>	<u>83</u>
	<u>1,864</u>	<u>32</u>	<u>1,465</u>	<u>83</u>

17. BANK LOANS AND OVERDRAFTS

2 0 1 1 **2 0 1 0**

\$'000 **\$'000**

Group

Bank overdraft		368	110
Bank loans: amounts due within one year		<u>324</u>	<u>254</u>
Current liability		692	364
Bank loans: amounts due within two to five years		<u>-</u>	<u>217</u>
Total bank loans and overdrafts		<u>692</u>	<u>581</u>

18. OPERATING LEASES

The Group leases business premises in Israel under operating lease agreements. The lease expenditure charged to the income statement during the year is disclosed in note 4.

2 0 1 1 **2 0 1 0**
\$'000 **\$'000**

The future aggregate minimum lease payments under operating leases are as follows:-

No later than 1 year		<u>81</u>	<u>106</u>
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19. ACCOUNTING ESTIMATE

The subsidiary is required to pay royalties to the Israeli Office of the Chief Scientist ("OCS") under the subsidiary's research and development agreements with the OCS and pursuant to applicable laws, at the rate of 3-5% of sales for products developed with funds provided by the OCS, up to an amount equal to 100% of the OCS research and development grants received plus interest based on the 12-month LIBOR rate applicable to dollar deposits.

The subsidiary is obligated to repay the Israeli Government for the grants received only to the extent that there are sales for the funded products.

During the year the Directors have reassessed the projected sales for the products funded by the OCS and in light of falling demand following the development of new, more advanced technology the group's management have decided to market the products only until the end of 2013. This reduction in projected sales has lead the Directors to conclude that the future royalty liability will be significantly lower and consequently the estimated liability has been reduced by \$766,000.

20. POST EMPLOYMENT BENEFITS

Labour laws and severance laws in Israel obligate the Company to pay severance pay to employees in the

event that they are fired or if they retire. The severance is calculated for employee benefits according to valid employment contracts and upon the salary of the employees which according to management creates the entitlement to receive severance. Plan assets include funds deposited to managers' insurance policies and to a central severance fund deposited in a banking institution.

	2 0 1 1	2 0 1 0
	<u>\$'000</u>	<u>\$'000</u>
Obligations for defined benefits plan	341	348
Assets	<u>(1)</u>	<u>(1)</u>
Net obligations	<u>340</u>	<u>347</u>
Expenses for defined benefits plan:		
Cost of current service fees	53	71
Interest expense for obligations	18	7
Expected return on plan assets	(1)	(1)
Actuarial loss, net	<u>(39)</u>	<u>17</u>
	<u>31</u>	<u>94</u>
Activities at fair value of obligations for defined benefits plan:		
Balance at beginning of year	348	276
Interest expense	18	7
Cost of current service fees	53	71
Severance paid	(39)	(23)
Actuarial gain, net	<u>(39)</u>	<u>17</u>
Balance at end of year	<u>341</u>	<u>348</u>
Activities at fair value of assets:		
Balance at beginning of year	1	9
Expected return	1	1
Deposits by employer	39	14
Severance paid	(39)	(23)
Actuarial loss , net	<u>(1)</u>	<u>-</u>
Balance at end of year	<u>1</u>	<u>1</u>
Primary assumptions in establishing obligations		
Capitalisation rate of obligations	4.9%	5.22%
Expected real rate of return for plan assets	2.3%	2.56%
Expected real rate of salary increase	<u>2%</u>	<u>2%</u>

21. **FINANCIAL RISK MANAGEMENT**

The Group's activities give rise to a number of financial risks: market risk, credit risk and liquidity risk. Market risk includes foreign exchange risk and cash flow and fair value interest rate risk. The Group has in place risk management policies that seek to limit the adverse effects on the financial performance.

Foreign exchange risk

Most of the Group's sales and income are in US dollars; however the expenses are divided between the US dollar and the Israeli Shekel. The cost of goods (components) are paid in dollars and part of the operational costs such as rent and other service providers quote their fees in dollars. Labour costs however are paid in Israeli Shekels. The Group has therefore a partial currency risk in the event the Israeli shekel is strengthened against the US dollar that could influence the bottom line of the Group's financial results.

The Group is subscribed to a weekly circular from the two Israeli main banks regarding the main financial institutions expectations for foreign currency changes. The management reviews them carefully and will consider with the board whether it should purchase financial instruments sold by local banks, to protect itself from this foreign exchange risk.

Financial instruments

The Group does not use derivative financial instruments but has bank loans. The Group finances its operations simply using bank balances and overdraft, plus debtors and creditors. The cash flow is regularly monitored and the overdraft is occasionally extended to meet requirements as they arise.

Capital risk management

The Group manages its cash carefully. In order to reduce its risk, the Group may take measurements to reduce its labour costs if performance is below the Group's expectations. The Group may conduct placing for new shares of the Company to raise additional capital as required when monitoring its performance, to continue its operations.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Accounting policies for financial instruments are applied on the following Balance Sheet items:

All of the Group's liabilities have been classified as other financial liabilities. The Group does not have assets or liabilities which are classified as 'Assets or Liabilities at Fair value through profit and loss'.

Fair value of financial instruments

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market price;

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market price;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

The Group applied the following methods and assumptions during the estimation of fair value of financial instruments:

Receivables and deposits at banks

For assets which mature within 3 months, carrying value is similar to fair value due to shortness of these instruments. For longer-term assets, contracted interest rates do not significantly defer from current market interest rates, and due to that their fair value is similar to its carrying value.

Loan liabilities

Fair value of short term liabilities is similar to its carrying value due to the short term nature of these instruments. For long term liabilities, contracted interest rates do not significantly differ from current market interest rates, and due to that their fair value is similar to their carrying value.

Other financial instruments

Financial instruments of the Group which are not valued at fair value are trade accounts receivable, other receivables, trade accounts payable and other payables. Historic carrying value of assets and liabilities, including the provisions, which are in accordance with the usual business conditions, is similar to their fair value.

Financial risk management objectives

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(a) Liquidity risk

At 31 December 2011 the consolidated cash position of the Group is \$94,000 (2010: \$197,000) and there is currently no procedure to centralise and manage cash by a treasury

manager.

The Group manages its liquid resources so as to obtain the best available rates of return on cash investments, whilst retaining access to those resources. Cash that is not needed for short term requirements is deposited for periods of one month (or more), based on the Directors' assessment of prevailing interest rate trends, the interest rates available and the liquid resource requirements of the Group. In addition, cash is placed on instant access deposit with the Group's bankers, which is available for shorter-term requirements.

(b) Interest rate risk

The Company, nor any of its subsidiaries, has any debt subject to rate indexation. Hence there is no major impact on our finances from potential rate variations.

(c) Currency risk

The Company has not implemented a specific policy to protect against currency fluctuations. The fact that the Group is trading in the three main international currencies could have a negative impact. The Group subscribes to a weekly circular from the two Israeli main banks regarding the main financial institutions expectations for foreign currency changes. The management reviews them carefully and will consider with the board whether it should purchase financial instruments sold by local banks, to protect itself from this foreign exchange risk.

(d) Credit risk management

The Group is exposed to credit risks if its customers fail to pay for goods supplied by the Group. In order to minimise this risk the Company has a policy of:

- Selling only to respectable integrators and distributors and not to the end customer.
- Orders from customers in certain regions are shipped only after an approved letter of credit is received by the group's bank.
- On going customers must pay 50% before shipping.
- Only high rated customers receive credit from the group(GE, ADI, G4S Israel)

The group's maximum exposure to credit risk is \$5,020,000 represented by Trade and other receivables.

22. ULTIMATE CONTROLLING PARTY

The Directors do not believe there to be an ultimate controlling party.

23. RELATED PARTY TRANSACTIONS

Included within Other Receivables is a loan of US \$235,000 (2010: \$168,000) to G Tahan, a director. The loan is unsecured and is due within one year. Total interest on the loan of \$14,535 was received during the period.

24. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the company's financial statements are listed below. This listing is of standards and interpretations issued, which the company reasonably expects to be applicable at a future date. The company intends to adopt those standards when they become effective. The company does not expect the impact of such changes on the financial statements to be material.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013.

In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the

first phase of IFRS 9 will have an effect on the classification and measurement of the company's financial assets. The company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard is effective for annual periods beginning on or after 1 January 2013. The standard may be applied to an earlier accounting period, but, where doing so, entities must disclose that the standard is early adopted and must also apply IFRS 11 'Joint Arrangements', IFRS 12 'Disclosures of Interests in Other Entities', IAS 27 'Separate Financial Statements', and IAS 28 'Investments in Associates and Joint Ventures'.

IFRS 12 Disclosure of Interests in Other Entities

The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate:

- the nature of, and risks associated with, its interests in other entities
- the effects of those interests on its financial position, financial performance and cash flows.

IFRS 12 is applicable to annual reporting periods beginning on or after 1 January 2013. Early application is permitted.

Entities are encouraged to voluntarily provide the information required by IFRS 12 prior to its adoption. Providing some of the disclosures required by IFRS 12 does not compel an entity to comply with all of the requirements of the IFRS or to also apply

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